A STUDY OF THE UNIT TRUST INDUSTRY IN HONG KONG

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MBA PROJECT REPORT

Presented to

The Graduate School

In Partial Fulfilment

of the Requirements for the Degree of

MASTER OF BUSINESS ADMINISTRATION

TWO-YEAR MBA PROGRAMME

THE CHINESE UNIVERSITY OF HONG KONG

May 1994

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APPROVAL

Name: Chan Lap-Yan, Alvin

Degree: Master of Business Administration

Title of Project: A Study of the Unit Trust Industry in Hong Kong

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Date Approved: May 13, 1994

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ABSTRACT

The unit trust industry in Hong Kong has experienced strong growth in recent years and it has become an increasingly popular investment vehicle for the public. The increased marketing effort on local retail investors and the bullish Asian equity markets are the main factors which led to the boom. At present, unit trusts are marketed primarily through three channels, namely fund houses, banks and agents.

Despite local investors are becoming more familiar with unit trusts, most of them still not fully aware of their right sand the caveats of investing in unit trusts. Empirical findings show that the actual spreads of the fund prices are usually higher than that stated in the explanatory memoranda. At present, the unit trust industry in Hong Kong is regulated by the Securities and Futures Commission. However, there are many grey areas in the Code on Unit Trusts and Mutual Funds, which may not offer enough protection for the investors.

Empirical study of Sharpe's Index of 31 unit trusts in Hong Kong over the period 1989-1993 shows that the performance of some of the specialized and income funds is significantly different from being evaluated by aggregate returns. Thus, investors should take both the risk and return factors into acocunt when they select a fund.

ACKNOWLEDGEMENT

First of all, I sincerely thank Dr. Paul McGuinness for his insightful comments on this project. He has given me a lot of valuable guidance which is necessary for the completion of this report.

Unit trust is a fast changing industry and it is important that several practitioners in the industry have provided valuable assistance and opinion in helping me to complete this project. I would like to express my gratitude to Mr. Stewart Aldcroft, Director of HSBC Asset Management Limited and Mr. Vincent Wong, Associate Director of HSBC Asset Management Limited, both of whom have given me very precious advice on the project.

I am also indebted to Mr. Poon of Micropal Limited and Ms. Sally Wong of Hong Kong Investment Funds Association who provided the fund data for me to complete this report. Special thanks to Mr. Steve Chiu and Mr. Nelson Ng of HSBC Asset Management Limited, and Mr. Patrick Wong of Invico (Asia-Pacific) Limited, who have share with me their experiences in the unit trusts industry in Hong Kong.

CHAPTER I

INTRODUCTION

A unit trust is a kind of collective investment vehicle which pools financial resources together and are then invested by professionals. Unit trusts have become increasingly popular in Hong Kong as they provide investors with an easy and economical way to invest in diverse and complex international financial markets. Investors in unit trusts basically can benefit from the following:

- daily professional fund management;
- spread of risk over a wide range of equities and/or markets;
- access to international markets;
- reduced effort in transactions.

The Hong Kong unit trust industry has experienced tremendous growth in recent years. Last year represented a take-off stage for unit trusts in Hong Kong with net investment of more than US$ 1 billion[1] triggered by the booming Southeast Asian stock markets.

Previous studies on unit trusts in Hong Kong basically aimed at providing an overview of the industry or studying the risk and return relationship of unit trusts.[2]

[1]Hong Kong Investment Funds Association, Press Release dated 8 March 1994.

[2]See for example, Wong, Hoi-to and Wong, Wai-kei. An Overview of the Unit Trust Industry in Hong Kong. MBA Project, the Chinese University of Hong Kong, 1987 and Tse, Ying-tin and Wong, Chi-wai. Higer Return, Lower Risk: The Performance of Unit Trusts in Hong Kong. MBA Project, the Chinese University of Hong Kong, 1986.

As the unit trust industry has been changing at an increasing rate in recent years, this research project will update information on these two aspects. In addition, this project will also highlight the issue of transaction costs of investing in unit trusts. The number of unit-holders in Hong Kong has grown significantly in the last few years but it is interesting to note that many small investors are still not fully aware of the costs involved in dealing in unit trusts. This project intends to draw investors' attention to some areas which they should know but probably ignore.

The objectives of this project can be summarized as follows:

- To provide an overview of the unit trust industry in Hong Kong.
- To conduct empirical research on the risk and return relationship of selected funds from leading fund houses over the period 1989-1993.
- To conduct empirical research on the transaction costs of dealing in unit trusts.
- To shed light on some caveats of unit trusts and highlight some issues which investors should know but possibly ignore.
- To identify loopholes in the existing regulatory framework.

In carrying out the above objectives, this project report is structured as follows. Chapter I and II outline the objectives, methodology and limitations of this project. Chapter III aims at clarifying some of the existing terminology and introduce different cclassifications of funds. Chapter IV to VI highlight the environment and the characteristics of the unit trust industry in Hong Kong. Chapter VII and VIII focus on the issue of transaction costs and the relationship between risk and return. Observations from empirical research are also discussed in these two chapters. The final chapter is the concluding part of this project report.

CHAPTER II

METHODOLOGY AND LIMITATIONS

Explanatory memoranda and annual reports of selected unit trusts, printed materials and articles from the Hong Kong Investment Funds Association (HKIFA) are used to gather the background information about the unit trust industry in Hong Kong. Articles from journals and newspapers are also used for reference.

Statistical data on the sales and redemption figures of unit trusts is supplied by the HKIFA, whereas the average returns of unit trusts is provided by Micropal Limited.

Concerning the regulatory framework, most of the information is extracted from the Code on Unit Trusts and Mutual Funds and the Code of Ethics of the HKIFA.

Interviews with executives from investment management company and the HKIFA were held in order to gather their views on specific areas. In addition, there were various informal talks with unit trust investors and unit trust consultants and some of their views are reflected in this report as well.[3]

There are more than eight hundred authorized funds[4] in Hong Kong and it is

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[3]Mr. Nelson Ng and Steve Chiu of HSBC Asset Management Ltd., and Mr. Patrick Wong of Invico (Asia-Pacific) Ltd., whom engaged in the marketing of unit trusts, had provided a lot of information concerning unit trust investors and industry practices.

[4] Hong Kong Investment Funds Association, The Hong Kong Investment Funds Yearbook 1993, 6th ed., p.21

difficult to conduct research which covers all of them. Thus, the empirical studies in Chapter VII and VIII only focus on selected unit trusts from the major fund houses in Hong Kong.

One of the objectives of this report is to shed light on some of the improper practices and caveats that unit trust investors should be aware of. Thus, to a certain extent, there is some conflict of interest between practitioners in the industry and the investors. On some sensitive issues, it is quite difficult to obtain unbiased comments from the experienced unit trust executives.

CHAPTER III

DIFFERENT KINDS OF FUND

This chapter aims at clarifying some easily mixed up terminology. The conventional and the Hong Kong Investment Funds Association's classifications of funds are also discussed.

Open-ended Versus Closed-ended Fund

An investment fund can either be open-ended or closed-ended. The structure of a "closed-end" fund is similar to a listed company. The fund is divided into a fixed number of shares and the share price varies according to the forces of demand and supply. Thus, the price of a "closed-end" fund can fall below or rise above the net asset value (NAV) per share. The NAV is computed daily at the close of the market, which is equal to the market value of the portfolio minus the fund's liabilities and then divided by the number of shares outstanding. The phenomenon in recent years is that closed-end funds are traded at substantial discounts from their NAV. The average discount was 19% for the Asian closed-ended country funds that listed in London at the end of February 1993.[5]

By contrast, an "open-ended" fund has a variable number of shares. The number of shares increases when investors buy new shares and decreases when they

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[5]Balakrishnan, N. "Where to Put Your Money: Targeting Country Funds" Far Eastern Economic Review, 1 April 1993, p.45

are redeemed. The price of an open-ended fund is based on its NAV (with bid and offer spread).

A "closed-end" fund is traded as an equity security. There is a limited number of "closed-end" funds in Hong Kong and they are regulated by the Stock Exchange of Hong Kong. On the other hand, an "open-end" fund is authorized by the Securities and Futures Commission (SFC). At the time of writing, there are only three "closed-end" funds that are listed and traded on the Hong Kong Stock Exchange[6], whereas there are more than eight hundred "open-end" funds being authorized by the SFC.

Unit Trust Versus Mutual Fund

Simply speaking, the term unit trust is a British term and refers to an "open-end" fund whereas the term mutual fund is a US term. However, if we take a closer look, there are some legal differences between the two due to their different structures.

A unit trust is established as a trust and the trustee holds the assets for the beneficiaries of the unitholders. As the legal owner of the trust property, the primary duty of the trustee is to protect the interests of the unitholders. It will monitor and ensure that the investment made by the fund managers comply with the investment policy set out in the Explanatory Memorandum and do not breach any investment restrictions as outlined in the Trust Deed.

On the other hand, a mutual fund has the structure of a limited liability company. The company owns the assets and investors are the shareholders of the

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[6]China Merchant's China Fund (code:133), Wardley's China Fund (504) and Standard Chartered's China Fund (509) are 'closed end' funds which are now traded in the Hong Kong Stock Exchange

mutual fund company. Usually, a mutual fund also assigns a custodian for the safekeeping of the assets. But ultimately, it is the responsibility of the directors of the mutual fund company to ensure that the fund managers and the custodian perform their duties in accordance with the constituent documents.

The legal implication is that in a unit trust a unitholder's relationship and recourse stands with the trustee whose role is to protect the interest of the unitholder, while in a mutual fund, the investor's relationship and recourse is with the mutual fund company itself.

No-load Versus Load Fund

The sales commission of a fund is referred to as a "load". A fund that does not impose any sales commission is called a no-load fund. The typical no-load fund found in Hong Kong is the money market fund, such as JF Money Market Funds and Wardley Money Funds.

A load fund can either be "up-front" or "back-ended", depending on whether the commission is being charged at the time of purchase or redemption. Other than money market funds, most of the funds in Hong Kong are load funds with commission imposed up-front. Investors will purchase the shares at the offer price, which is equal to the NAV plus a sales commission (most commonly referred to as the initial charge in Hong Kong) and redeem the shares at the bid price (NAV). There are also some funds in Hong Kong which will charge commissions both at purchase and redemption.[7]

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[7]For instance, JF Far Eastern Warrants Trusts, INVESCO MIM Asia Tiger Warrants Fund and Thornton Asian Conqueror Warrant Fund. See also Chapter VI of this report.

In the US, the commission for many funds is optional, i.e. it is imposed according to certain conditions, such as if the shares are redeemed within a specific period of time. Such practice has not been observed in Hong Kong yet.

Unit Trust Categories

Traditionally, practitioners in the US prefer to categorize unit trusts/mutual funds by investment objectives. According to the Investment Company Act of 1940, mutual funds must publish a written statement of their investment objectives and make available to shareholders. The four broad classes are income, balanced, growth and specialized funds.

The objective of income funds is to provide a stable income to the investors regularly. The funds will invest in fixed-income financial instruments such as bonds and medium term notes (MTNs). Capital preservation usually will be only of secondary importance. The income derived from the investment will be distributed to the unitholders by way of dividend. The bond funds of the fund houses in Hong Kong fall into this category. Some fund houses provide bond funds which invest in different markets to the investors.

Balanced funds wish to minimize investment risks without sacrificing possibilities for capital growth and current income. In other words, balanced funds aim at maintaining a balance between income generation and capital appreciation. The portfolio of these funds will be diversified through a wide range of fixed-income securities, convertibles and equities. The managed funds in Hong Kong normally fall into this category.

Growth funds are funds which aim at achieving maximum capital appreciation.

Income generation will be of very minor importance and most of the equity funds in Hong Kong belong to this category.

Specialized funds broadly refer to funds which concentrate their investment in one particular investment sectors. Some will invest in a particular industry (e.g. GT Telecommunication Funds, JF Japan Technology Trust) or a particular type of securities (e.g. GT Japan OTC stocks, JF Global Convertibles Trust). Commodity funds like the Schroders Gold Fund are also examples of specialized funds.

The relative emphasis on dividend income versus capital gains and the overall risk level involved differ between the above four classes of funds. Specialized funds put the most emphasis on capital gains whereas income funds aim at maintaining a stable stream of income. The risk attached to specialized funds is the highest whereas that of income funds is the lowest.

But such classifications can never be perfect. Many newly established unit trusts are of hybrid nature and it is very difficult to classify them into any single class of funds. Take for example, the GT Strategic Bond Fund which invests in both the mature bond markets like the US and the emerging bond market in areas such as Latin America. The prime aim of investing in the emerging bond markets actually is to obtain capital gains as the credit ratings of the Latin American countries improve. Thus, the GT Strategic Bond Fund is quite different from traditional bond funds and it is not appropriate to classify it as normal income fund. As the market become more mature, it is expected that more unit trusts with very specific investment strategies will be launched in the future.

To better reflect the nature of funds in Hong Kong, the HKIFA classifies the authorized unit trusts into 22 different categories. This classification also incorporates the geographical element into consideration. Unit trusts which invest in the same instruments and/or markets are grouped together. Table 1 is a list of the HKIFA classification with the average return of each sector. The performance data is supplied by Micropal Limited and it is published in the "Sunday Money" section of the South China Morning Post each week.

TABLE 1: UNIT TRUST CLASSIFICATION BY HONG KONG INVESTMENT FUNDS ASSOCIATION

	Average Return as at (10/4/94)	
Sector	1 year	3 year
Asian Single Countries	49.20%	78.68%
Australian Equities	34.53%	68.82%
Bond Fund (Other)	8.12%	36.82%
Commodity Funds	45.60%	60.91%
Currency Deposit Funds	3.57%	16.63%
Emerging Markets Equity	55.42%	74.07%
European (Inc UK) Equity	30.33%	32.87%
European (Exc UK) Equity	24.53%	23.77%
Far East (Exc Japan) Equity	50.63%	105.92%
Far East (Inc Japan) Equity	46.59%	66.01%
Hong Kong Equities	46.07%	161.45%
International Bonds	5.95%	28.37%
International Equities	23.57%	29.35%
International Managed	19.25%	35.05%
Japanese Equities	28.54%	10.84%
Managed Currency Funds	0.97%	11.29%
North American Equities	5.88%	36.93%
Singapore/Malaysian Equities	56.90%	96.39%
UK Equities	14.49%	21.76%
UK Gilts/Bonds	4.70%	16.30%
US Bonds	1.71%	23.45%
Warrant Funds	62.85%	60.67%

Source: South China Morning Post, 10 April 1994, Sunday Money, p.7

CHAPTER IV

REGULATORY FRAMEWORK IN HONG KONG

This chapter provides an overview of the regulatory framework of the unit trust industry in Hong Kong. The regulatory framework comprises of the regulatory bodies and the associated legislation relating to funds. Both aspects will be discussed in the following sections.

The Securities and Futures Commission (SFC) is the official regulatory authority of unit trusts in Hong Kong. The major role of the SFC is to protect the interest of investors in the Hong Kong securities and futures markets. Section 15(1) of the Securities Ordinance gives the SFC the power to authorize unit trusts and mutual funds in Hong Kong. The Code on Unit Trusts and Mutual Funds establishes guidelines for the authorization of funds. Another industry body, the Hong Kong Investment Funds Association (HKIFA) also helps to monitor and ensures that the practice of its members are adhered to accepted ethical standards.

The evolution of the SFC reflects several financial crises in Hong Kong. In 1970, some Hong Kong investors suffered substantial losses as the "Funds of Funds" bubble burst in 1970. In order to protect the investors, the government appointed a committee to work out the Protection of Investors Ordinance in 1974. The Securities Ordinance established the Securities Commission, which was one of SFC's predecessors and had the power to authorize unit trusts at that time. The global stock market crash in 1987 led to the appointment of a second committee to review the regulatory framework of the securities and futures markets in Hong Kong. Following the recommendations of the committee, the Securities Commission, the Commodities Trading Commission and the Office of the Commissioner for Securities and Commodities Trading were merged into one independent statutory body, the SFC, in May 1989.

The Hong Kong Investment Funds Association (HKIFA, formerly called the Hong Kong Unit Trust Association) was established in 1986. The aim of the HKIFA is to promote and monitor the unit trust and investment management industry in Hong Kong. In other words, it acts as both a consultative and regulatory body of the investment fund industry.

HKIFA is a consultative body for the public and its own members. For the public, HKIFA publishes performance figures of the funds which are managed by its members on a monthly basis. It also plays an important role in promoting unit trusts to the general public in Hong Kong by constantly publishing articles about unit trusts in the newspapers. It also organizes some seminars with other fund houses.

As a consultative body for its members, the HKIFA gathers opinions on any regulatory matter which will affect the industry and represents the interest of the investment management industry on policy issues. This includes the regulation of unit trusts, mutual funds, retirement funds and other funds of a similar nature.[8]

The HKIFA also performs the role of a regulatory body by establishing a Code of Ethics for its members. The Code of Ethics defines the responsibilities of the HKIFA's member companies and aims at reinforcing the ethical standards of the

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[8]The association changed its name from HKUTA to HKIFA so as to reflect the widening scope that it is dealing with.

industry.

As of March 1994, HKIFA had 42 full members and 17 associate members. The associate members are trustees, lawyers, accountants and other professionals which engaged in the setting up and administration of funds. A list of the full members is shown in Appendix 1.

In the coming year, the HKIFA has decided to place particular emphasis on the development of the PRC fund industry and on the local retirement funds industry. Two specialized work groups, the Hong Kong and China Affairs Committee and the Retirement Protection Scheme Working Group, have been set up to monitor the progress in these two areas. The HKIFA believes that the PRC and local retirement market will create a lot of business opportunities for investment companies in Hong Kong.

The Code on Unit Trusts and Mutual Funds

The Code on Unit Trusts and Mutual Funds was established in 1978 and substantially revised in 1991. Since then, only funds that are authorized by the SFC can be marketed in Hong Kong. Unauthorized fund can still be sold, but any sort of marketing activities is strictly prohibited.

The Code has been constantly revised so as to cope with market changes. The Code basically consists of four parts. Part I of the Code explains the procedures to seek the authorization of a fund and other general matters. Part II describes the structures and operations of a collective investment scheme, such as the role of the trustee/custodian and management company, as well as other operational requirements with respect to the offer of shares, pricing, dealing, valuations, meetings and reporting. Part III sets out guidelines for various types of specialized schemes such as unit portfolio management funds, warrant funds, money market funds and leveraged funds and provisions regarding the investment and borrowing powers of a scheme. The additional requirements applicable to funds which domiciled overseas are indicated in Part IV of the Code.

The above only briefly outlines the contents of the Code. The details of the Code will be discussed in this report whenever relating issues arise.

A committee on Unit Trusts was established in 1978 to administer the Code. The committee consists of regulators and industry professionals so as to balance the interests of different parties (see Appendix 2 for the constitution of the committee). It makes recommendations to the SFC if it thinks the Code should be amended or extended.

The Code of Ethics

The Code of Ethics requires members to comply with all relevant laws and regulations such as the Code on Unit Trusts and Mutual Funds. It also states that its members should provide investors with all requisite documentation and adequate warning of any proposed change of policy.

Members who fail to follow the Code of Ethics are liable to disciplinary procedures which are incorporated in the Articles of Association of the HKIFA. According to Ms. Sally Wong, Senior Executive Manager of the HKIFA, no member has been punished by the HKIFA till now.[9] It seems that the effectiveness of this system is questionable.

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[9]Commented during an interview with the author on 11 March, 1994.

CHAPTER V

THE STRUCTURE OF UNIT TRUSTS

Domicile

One special characteristic of the unit trust industry in Hong Kong is its off-shore nature. Over 90 percent of the funds authorized in Hong Kong are domiciled in off-shore jurisdictions.[10] Table 2 illustrates the domicile mix of the authorized funds in Hong Kong. Luxembourg is the most favourable domicile following by Jersey (Channel Islands) and the Cayman Islands.

TABLE 2: DOMICILE MIX OF HONG KONG AUTHORISED FUNDS (1992)

Domicile	No. of Funds
Luxembourg	139
Jersey (Channel Islands)	95
Cayman Islands	70
Bermuda	55
United Kingdom	40
Hong Kong	34
British Virgin Islands	33
Guernsey (Channel islands)	32
Ireland	31
Others	10
Total	539

Source: Hong Investment Funds Association. The Hong Kong Investment Funds Yearbook 1993, 6th ed., p.7

[10] Hong Kong Investment Funds Association, op. cit., p.22

For this reason, the Code also makes some accommodation for funds which are established in other recognized jurisdictions. A system of standard waivers was developed for funds domiciled in countries with stringent investor protection laws and regulation regimes which are comparable to Hong Kong. Appendix 3 shows the recognized jurisdictions and their corresponding exemptions. Before this multi-jurisdiction system was incorporated, the processing of applications took almost a year. The streamlined procedures significantly speeded up the application process and currently the authorization of a fund normally takes less than a month.[11]

According to Robert Thomas, the former chairman of the Hong Kong Unit Trust Association, the fact that there is no requirement that the trust be located in Hong Kong in order to be authorized has made Hong Kong the leading centre for unit trusts in Asia.[12]

Trustee

The SFC requires that unit trusts have a Trustee whereas mutual funds must have a Custodian. Trustees are expected to fulfil the duties imposed on them by the general law of trusts. For custodians, their responsibilities should be reflected in a Custodial Agreement.

The capital requirement of a trustee/custodian has been increased from HK$ 5 million to HK$ 10 million in 1991. The followings are the general obligations of trustee/custodian as stated in Section 4.5 of the Code:

- take into his custody or under his control all the property of the scheme and hold it in trust

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[11]Hong Kong Investment Funds Association, op. cit., p.25

[12]Newlands, Mike. "Fly-by-Night Operators May Be Grounded" Asian Business, September 1987, p.51-52

for the holders (in the case of unit trust) or the scheme in accordance with the provisions of the constitute documents (in the case of a mutual fund corporation); cash and registrable assets must be registered in the name or to the order of the trustee/custodian;

- be liable for any act or omission of any agent with whom any investment in bearer form are deposited as if they were the act or omission of any nominee in relation to any investment forming part of the property of the scheme;
- be liable for the acts and omissions of the lenders and its agents in relation to assets forming part of the property of the scheme;
- take reasonable care to ensure that the sale, issue, repurchase, redemption and cancellation of units/shares effected by a collective investment scheme are carried out in accordance with the provisions of the constitutive documents;
- take reasonable care to ensure that the methods adopted by the management company in calculating the value of units/shares are adequate to ensure that the sale, issue, repurchase, redemption and cancellation prices are calculated in accordance with the provisions of the constitutive documents;
- carry out the instructions of the management company in respect of investments unless they are in conflict with the provisions of the offering or constitutive documents;
- take reasonable care to ensure that the investment and borrowing limitations set out in the constitutive documents and the conditions under which the scheme was authorized are compiled with;
- issue a report to the holders to be included in the annual report on whether in the trustee/custodian's opinion, the management company has in all material respects managed the scheme in accordance with the provisions of the constitutive documents; if the management company has not done so, the respects in which it has not done so and the steps the trustee/custodian has taken in respect thereof;
- take reasonable care to ensure that unit/share certificates are not issued until subscription moneys have been paid.

Source: Securities and Futures Commission, Code on Unit Trusts and Mutual Funds, p.9-10

The Code also states that the trustee/custodian and the management company must be independent of each other. However, the requirements for independence are very loose. For instance, if the trustee/custodian and the management company both belong to the same ultimate holding company, they are still regarded as independent of each other if neither of them is a subsidiary of the other or no person is a director of both.[13] At present, it is very common to find that the management company and the trustee/custodian of a fund are in fact the subsidiaries of the same ultimate holding company. For example, The Baring Emerging Markets Umbrella Fund has Baring International Asset Administration Limited as investment manager and Baring

[13]Securities and Futures Commission, Code on Unit Trusts and Mutual Funds, p.11

Brothers (Ireland) Limited as trustee.

Management Company

The required capital reserves of a management company is HK$ 1 million. The directors of the management company must have good reputation and in the opinion of the SFC possess the necessary experience for the performance of their duties. The qualifications and experience of the staff employed by the management company should also satisfy the requirements of the SFC.

If the management company is incorporated in Hong Kong, its fund managers and unit trust salesmen should normally be registered as investment advisers under the Securities Ordinance.[14]

For overseas domiciled funds, the management company must appoint a Hong Kong representative who must be registered as a securities dealer in Hong Kong.

[14]According to the Ordinance, the applicant should be at least 21 years of age; mentally sound; not a bankrupt; and have no previous record of conviction and mismanagement

CHAPTER VI

MARKETING OF UNIT TRUSTS IN HONG KONG

The unit trust industry in Hong Kong has experienced high growth in recent years. Being stimulated by the boom in the Southeast Asian stock markets. In fact, the market has been growing at a tremendous pace during 1993.

Other than the overall economic environment, the successful breakthrough to the local Chinese community is one important factor which has contributed to the high growth in the unit trust industry in recent years. In the past, the unit trust industry mainly catered for the needs of institutional investors and short stay expatriates, many of whom were investing so as to take advantage of their offshore-tax free status in Hong Kong. At that time, unit trust was an industry of Western culture, full of technical jargon which was unfamiliar to local investors. But in the last few years, many fund houses, agents have put a lot of effort in educating and developing the local retail market with encouraging results.

Sales and Redemptions Figures

Table 3 shows the quarterly sales and redemptions figures over the last five years. Prior to that, the sales of unit trusts in Hong Kong had experienced a short period of strong growth in the mid 1980s but this trend was terminated by the stock market crash in October 1987.[15] Since then, the sales figures have only increased

[15]Hong Kong Investment Funds Association, op. cit., p.13

TABLE 3: SALES AND REDEMPTIONS OF UNIT TRUSTS IN HONG KONG

(US$ million)		Sales	Redemptions	Net Sales
1989	QTR 1	202.2	164.0	38.2
	QTR 2	145.7	173.7	-28.0
	QTR 3	181.6	140.5	41.1
	QTR 4	234.8	263.1	-28.3
1990	QTR 1	254.5	358.7	-104.2
	QTR 2	283.6	327.7	-44.1
	QTR 3	330.9	404.9	-74.0
	QTR 4	304.7	337.5	-32.8
1991	QTR 1	574.9	463.7	111.2
	QTR 2	461.3	371.4	89.9
	QTR 3	411.0	365.6	45.4
	QTR 4	343.0	363.3	-20.3
1992	QTR 1	359.9	329.1	30.8
	QTR 2	423.9	399.0	24.9
	QTR 3	449.2	405.9	43.3
	QTR 4	436.8	391.6	45.2
1993	QTR 1	514.4	448.7	65.7
	QTR 2	819.0	583.1	235.9
	QTR 3	775.7	629.8	145.9
	QTR 4	1480.6	924.4	556.2

Source: Hong Kong Investment Funds Association, Press Release dated 8 March, 1994 moderately. The whole year of 1990 had recorded a negative net sales figure, which indicated that there was an outflow of funds from unit trusts in Hong Kong. But some practitioners believed that the October crash had benefitted the Hong Kong unit trust industry as it led to a period of consolidation in which the remaining investors in unit trusts aimed at long term investment rather than active switching.[16] This allowed the fund managers to run a more stable fund.

It was not until the second quarter of 1993 that the unit trust industry in Hong Kong witnessed another explosion. The sales of unit trusts in the fourth quarter of 1993 alone were almost equal to that for the whole of 1992. The major factor for this was the strong performance of equity markets in Hong Kong and other Asian countries in the third and fourth quarters of 1993. The high rate of return from investing in these markets aroused the interest of many retail investors.

Sales Channels

The sale of unit trusts is primarily conducted through three channels, namely in-house marketing teams, agents and banks. During the early years, much of the selling effort was made by the marketing team of the fund houses which focused on institutional clients. The sale of unit trusts through agents and banks was developed in recent years and this contributed significantly to the expansion of the retail sector.

Fund Houses

A well-established fund house basically can be divided into three divisions,

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[16]Aldcroft, Stewart. "Unit Trusts: Get a Proper Mix, and You Should Be All Right" Asian Finance, 15 April 1988, p.81-82

namely the institutional, private clients and unit trust (retail) divisions. As mentioned above, the past effort of the fund houses were concentrated in serving the institutional clients and individuals of high networth while ignoring the retail sector. Only three to five fund houses have consistently maintained promotional profile in the retail sector. But in recent years, many fund houses have started to put more emphasis on their unit trust marketing team in order to develop the retail sector.

Most of the fund houses in Hong Kong employ non-commission-based marketing staff in promoting their businesses. The role of these staff member is reactive in which their main duty is to answer the enquiry from potential customers. The main reason which causes the fund houses to adopt a reactive marketing role is that "cold calling" is prohibited in the unit trust industry in Hong Kong.[17]

The two leading fund houses in the retail market, HSBC Asset Management and Jardine Fleming, both adopt an aggressive strategy in marketing their unit trusts. HSBC Asset Management is the only fund house in Hong Kong which employs commission-based investment consultants in promoting the sale of unit trusts. Jardine Fleming's idea of establishing a unit trust centre so as to allow more contacts with the clients also proved to be extremely successful as the number of its unitholders increased significantly last year.

Agents

There are around ten to twenty agents in Hong Kong which specialize in the

[17]Section 74 of the Securities Ordinance and Section 60A of the Commodities Trading Ordinance prohibit soliciting investment by telephone or by visiting individuals without first receiving a prior invitation from that person. Section 6.37 of the Code on Unit Trusts and Mutual Funds also states that door-to-door canvassing is not permitted in Hong Kong

sale of unit trusts. Companies such as Pegasus, Invico, Pacific World, Vincent Management are examples of unit trust agents. These financial intermediates are required to register as investment advisors under the Securities Ordinance. They market unit trusts from different fund houses and receive rebates. The rebates are usually offered by the fund houses in the form of a sales discount. If the initial charge of a fund is 5 percent, for example, then the fund house may offer the fund to the agent at a 4 percent discount. The agent may or may not pass on the same discount to the clients. But in general, the agents will offer discounts (at a lower rate) to their clients so as to attract business.

Agents provide advisory services to their clients and give recommendations on unit trusts. Some agents publish a monthly newsletter in order to provide more value-added services to their customers, and the agents will receive a subscription fee in return.

In order to generate more income, some agents aim to promote some sort of discretionary portfolio management service for their clients and receive service and performance fees on it. This sometimes leads to problems of too frequent switching by the agents, which may not be in the best interests of the customers. Such unethical practices do exist among some agents in Hong Kong and investors should be very cautious about delegating their authority to financial intermediaries.

Banks

Banks are another sales channel which helps the unit trust industry to penetrate into the retail sector. Banks can utilize their branch network to promote unit trusts to the general public in Hong Kong.

Citibank and Hongkong Bank are two banks which have involved in the sale of unit trusts for a number of years. Citibank employs investment consultants to promote unit trusts of different fund houses. The sale of unit trust in Hongkong Bank is conducted through customer services officers and it is restricted to the unit trusts of HSBC Asset Management. Chekiang First Bank is the first and only Chinese bank which markets unit trusts. Since last summer, Fidelity's unit trusts can be purchased through Chekiang First Bank's branches. The involvement of Chinese banks in selling unit trusts is significant since many Chinese banks have placed heavy emphasis on their stock brokerage services for their customers. This represents a large pool of potential customers who have some experience and interest in investing. More important, the profile of these Chinese banks' customers are very different from those professionals and executives which most fund houses and agents target at. This can help the unit trust industry penetrate into another sector of the Chinese speaking community.

To conclude, commercial banks possess two definite advantages over fund houses and agents in the marketing of unit trusts. The first advantage is their distribution network. Fund houses and agents only maintain offices in prime commercial districts. The successful story of Jardine Fleming's unit trust centre indicates that more contacts with the potential clients may mean more businesses. While it may not be economic for fund houses to establish an extensive distribution network, commercial banks can utilize their existing branch network with minimum up-front cost involved. Commercial banks can benefit from scale economies if they market unit trusts in their branches.

Second, commercial banks are also more familiar to local small investors.

Despite their reputation and proven track record in fund management, the names of many international fund houses are unfamiliar to small local investors, especially the non-English speaking community. The customers may have more confidence if the unit trusts are recommended by bank executives.

Sales Process

The sales process of unit trust normally starts from an advertisement in the newspaper. After receiving the coupons from interested individuals, the fund houses will mail the corresponding explanatory memoranda and application forms to the potential customers and help to solve their queries.

Only authorized funds can be marketed in Hong Kong. The Protection of Investors Ordinance regulates advertisements and offers of securities and investment arrangements to the public and it contains sanctions for the advertising of unauthorized investment arrangement to the public in Hong Kong.

According to Section 6.40 of the Code on Unit Trusts and Mutual Funds, all advertisements of any collective investment scheme must carry the following warning statements:

- the price of units/shares may go down as well as up; and
- (where past performance is quoted) the past performance figures shown are not indicative of future performance.

Source: The Securities and Futures Commission, Code on Unit Trusts and Mutual Funds, p.24

Section 8.3 and 8.4 of the Code state that there are certain additional requirements on their advertisements for the following categories of fund:

Leveraged, Futures and Options Funds

- The words "leveraged", "futures" and/or "options" must appear in the name of the scheme;
- Any advertisement must contain a statement that investors should refer to the risk factors set out in the offering documents of the scheme.

Warrant Funds

- The word "warrant" must appear in the name of the scheme;
- Any advertising material must contain the following warning: "Investors are warned that prices of warrants may fall in value as rapidly as they may rise and it may not always be possible to dispose of them during such falls. This scheme therefore carries a significant risk of loss of capital. The right to redeem units may also be suspended in certain circumstances. It is suitable only for those investors who can afford the risks involved."

Source: Securities and Futures Commission, Code on Unit Trusts and Mutual Funds, p.34

According to Section 6.41 of the Code, the warning statements should be capable of being read with reasonable ease by anyone scanning the advertisement. These statements should preferably be printed in the same size as the rest of text. They may be in smaller text if printed in bold type or prominently outlined.

Dealing Procedures

The procedure of purchasing a unit trust is rather simple. An investor simply needs to fill in an application form and enclose the payment. Most fund houses accept payment by telegraph transfer, cheque or bank draft. But the application form can be supplied to the investors only if other offering documents are provided as well.

When a fund house offers application forms to investors, it must be accompanied by the offering document (usually known as the prospectus or explanatory memorandum) and the scheme's most recent audited annual report. This is to make sure that all the necessary information for investors to make an investment decision is available to them.

Other than personal information, an investor needs to confirm that he is not a US resident for taxation purpose and indicate what kinds of income distribution he prefers in the application form. The dividend from the fund can either be reinvested or paid in the base currency. If the dividend is reinvested automatically, then the investor will end up with more unit-holdings at the ex-dividend date.

Contract notes will be issued to the investors after the receipt of a completed application form and subscription monies. The contract note carries information such as the name of unit-holder, the unit-holdings and the purchase price. Usually units are held in non-certificated form.

If the application is received prior to the cut-off time of that day (which varies with fund to fund), then the units will be purchased at the offer price of that day. Otherwise, units will be issued at the price of the next dealing day. The majority of funds can have dealings on each business day, but the dealing day of some funds which invest in less mature markets may be less frequent. For instance, GT Shenzhen and China Fund and GT Latin America Fund both have one dealing day on every week. According to Section 6.13 of the Code, there must be at least one regular dealing day per month. But in Hong Kong most of the funds can be transacted more frequently.

Switching/Redemption

Most fund houses use the same form for switching and redemption orders. The usual switching charge is 1 percent of the NAV but some fund houses even allow the investors to switch on a "bid-to-bid" basis.[18] For switching, the investors need to

[18]The existing shares are redeemed and new shares are purchased both at the bid prices, which means that there is no commission involved.

specify which funds they are switching in and out of. In the case of redemption, the investors need to state which form of payment they would like to receive.

The switching/redemption process is rather simple if the units are held in non-certificated form. The investor only needs to confirm in writing (fill in the switching/redemption form) and quote the relevant account number to the fund house. Most fund houses accept confirmation by fax and thus the investors can switch/redeem their units in a very efficient manner. If an investor would like to sell his holdings today, then he can send his request by fax and the redemption will be made at the same date.[19]

A phenomenon worth emphasizing is the interval between an investor documented a redemption request and the actual receipt of the redemption monies. Section 6.14 of the Code on Unit Trusts and Mutual Funds states that this may not exceed one calendar month and the HKIFA also highlights this in the Code of Ethics for its members. However, it is not unusual to hear complaints that investors do not receive their redemption monies for more than a month. This is a serious threat to investors because they are suffering from poor liquidity and very often they are not certain about when they will receive the monies. The big boom in unit trusts in Hong Kong last year led to a serious redemption backlog as many fund houses were unable to expand their supporting team at the same time. At the beginning of 1994, Jardine Fleming had to suspend new applications for almost six months in a bid to divert resources to better serve the existing clients.

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[19]If the units are held in certificated form, then the investor needs to complete the switching/redemption form) at the back of the share certificate and send it back to the fund house. The shares will be redeemed after the fund house received the certificate and this usually will be several days later. This creates uncertainty to the investor since the market environment may be quite different from several days ago.

Investment management companies usually will fully protect themselves by including statements like "the realization proceeds will be paid by cheque at the risk of the unit-holder normally within five business days (and in any event within four weeks) of the relevant dealing day" in the explanatory memorandum. Compared with the T+2 settlement period when investing in Hong Kong stocks, the liquidity of investing in unit trusts may be much less than some are willing to accept.

It is interesting to note that the Code only states that the interval "may" not exceed one calendar month, which is a very ambiguous condition. The SFC should incorporate more stringent controls on this matter to remove any ambiguity.

CHAPTER VII

TRANSACTION COSTS OF DEALING IN UNIT TRUSTS

Despite the tremendous growth in the unit trust industry in recent years, many investors are still very unfamiliar with the costs involved. As a matter of fact, many marketers of unit trusts will tell the potential investors that "all the costs are reflected in the bid-offer spread" but without further qualifications and explanations. This is very misleading since the bid-offer spread only reflects the initial and/or redemption charges. But there are also other kinds of charges such as the management fee, trustee fee and other administration charges which are deducted from the NAV of the fund periodically. These are expense items of a unit trust and many investors maybe unaware of them.

The costs of investing in unit trusts basically can be divided into two categories, namely charges that are reflected in the bid-offer spread and charges that are reflected in the NAV. Rounding and exchange rate risk/spread are two other issues that an investor should pay attention to. The following sections will discuss these issues in turn.

In this chapter, transaction costs of selected funds from nine major fund houses in Hong Kong are reviewed.[20] Three different kinds of funds, namely

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[20]Including Barclays International Fund Managers Ltd., Baring International Funds Manager Ltd., Fidelity Investments Management (HK) Ltd., GT Management (Asia) Ltd., Invesco Asia Ltd., Jardine Fleming Unit Trusts Ltd., Schroders Asia Ltd., Thornton Management (Asia) Ltd. and Wardley Investment Services (HK) Ltd.

regional equities, *warrant* and *international bond funds*, from each fund house are selected. The study compares the initial charge, redemption charge, management fee and trustee fee of the different funds (see Tables 4 and 5). The actual spread of these funds are also studied and compared with that stated in the explanatory memoranda (see Table 6). This will be discussed in the last part of this chapter.

Charges Reflected in Bid-Offer Spread

The charges reflected in the bid-offer spread include the initial charge and the redemption charge. This represents the sales commission of a load fund. Other than money market funds, most of the funds in Hong Kong are load funds. The units will be issued at the offer price and redeemed at the bid price.

Table 4 shows the initial and redemption charges of three kinds of funds of nine major fund houses in Hong Kong. The initial charges vary among different unit trusts and fund houses. Usually the initial charges of income funds like bond funds are the lowest whereas that of specialized funds like warrant funds are the highest. It is also worth noting that some fund houses state the initial charge as a percentage of the NAV whereas some state it as a percentage of the initial investment. The trick is that if the initial charge is stated as a percentage of the investment monies, then this will result in a larger actual spread between the bid and offer price:

(1) If initial charge is stated as a percentage of investment monies:

Offer price = NAV / (1 - initial charge)
Bid price = NAV

(2) If initial charge is stated as a percentage of NAV:

Offer price = NAV x (1 + initial charge)
Bid price = NAV

TABLE 4: CHARGES REFLECTED IN BID-OFFER SPREAD

	INITIAL CHARGE	REDEMPTION CHARGE	FISCAL CHARGE	TOTAL[5]
REGIONAL EQUITY FUND				
Barclays AS S.E. Asia	5.00%[2]			5.00%
Baring IUF Octopus	5.00%[1]			5.00%
Fidelity S.E. Asia	5.25%[1]			5.25%
GT Asia Fund "A"	4.00%[2]			4.00%
INVESCO MIM PS Asia Tiger	6.00%[1]	0.50%[1]		6.50%
JF Eastern	5.00%[2]		0.50%[1]	5.50%
Schroders Asian	5.00%[2]			5.00%
Thornton Tiger	5.00%[1]			5.00%
Wardley GS Asian Equity	5.25%[1]			5.25%
WARRANT FUND				
GT Japan Warrant & Derivatives	4.00%[2]			4.00%
INVESCO MIM Asia Tiger	6.00%[1]	1.00%[1]		7.00%
JF Far Eastern Warrants	5.00%[2]	0.50%[1]	0.50%[1]	6.00%
Schroders Far Eastern Warrant	5.00%[2]			5.00%
Thornton Asian Conqueror Warrant	3.00%[3]	2.00%[4]		5.00%
Wardley Asian Warrants &	5.50%[1]			5.50%
INTERNATIONAL BOND FUND				
Barclays Int'l Bond	3.50%[1]	1.00%[1]		4.50%
Baring IUF Int'l Bond	5.00%[1]			5.00%
Fidelity Int'l Bond	5.25%[1]			5.25%
GT Bond "A" Share	4.00%[2]			4.00%
INVESCO MIM Income Plus	5.25%[1]			5.25%
JF Global Bond	5.00%[2]	0.25%[1]	0.25%[1]	5.50%
Wardley GS Int'l Managed Bond	5.25%[1]			5.25%

Source: Explanatory memoranda of the above unit trusts

Notes:
[1] Stated as % of NAV
[2] Stated as % of investment or subscription monies
[3] Stated as % of relevant share price
[4] Stated as % of redemption proceeds
[5] Ignoring whether the initial charge is stated as % of NAV or investment monies

It can be easily seen that the method (1) will lead to a larger bid-offer spread than method (2). The SFC does not have strict control on how the initial charge be stated in the explanatory memorandum. Section 6.11 of the Code only states that the offer and redemption prices may be adjusted by fees and charges, provided the amount or method of calculating such fees and charges is clearly disclosed in the offering document. The problem is that the fund houses only state the initial charge as a percentage of either the NAV or investment monies (usually in fine print) and never explain in detail the method of calculation. Thus, most investors are not aware of the difference between the two.

Redemption charge refers to all sorts of charges that will be imposed on the investors upon realization of their units. Some fund houses like Jardine Fleming may even impose more than one redemption charge to investors, such as 0.5 percent realization charge and 0.5 percent fiscal charge for the JF Far Eastern Warrants Trust. Investors should pay attention to these redemption charges because they are usually in fine print which are difficult to notice.

Charges Reflected in NAV

The charges reflected in the NAV include management fee, trustee fee and various other administration expenses. Management fee is payable to the portfolio manager for the investment services provided. The fee usually is paid in arrears at the end of each calendar month and stated as an annual rate on the NAV. Similar to the initial charge, the management fee increases with the level of risk attached to the fund. As shown in Table 5, the management fees for bond funds are in general the lowest, whereas those of specialized funds, such as warrant funds, are the highest.

TABLE 5: CHARGES REFLECTED IN NET ASSET VALUE

	MGN'T FEE[1]	ADMIN CHARGE[1]	TRUSTEE FEE[2]	TOTAL
REGIONAL EQUITY FUND				
Barclays AS S.E. Asia	1.75%		0.150%	1.900%
Baring IUF Octopus	1.25%	0.375%	0.100%	1.725%
Fidelity S.E. Asia	1.50%			1.500%
GT Asia Fund "A"	1.50%	0.300%	0.030%	1.830%
INVESCO MIM PS Asia Tiger Growth	1.50%		0.225%	1.725%
JF Eastern	1.00%		0.100%	1.100%
Schroders Asian	1.00%		0.250%	1.250%
Thornton Tiger	2.00%		0.250%	2.250%
Wardley GS Asian Equity	1.50%		0.250%	1.750%
WARRANT FUND				
GT Japan Warrant & Derivatives[3]	1.50%	0.375%	0.100%	1.975%
INVESCO MIM Asia Tiger Warrants	2.45%		0.250%	2.700%
JF Far Eastern Warrants[4]	1.75%		0.125%	1.875%
Schroders Far Eastern Warrant	1.50%		0.250%	1.750%
Thornton Asian Conqueror Warrant	1.50%		0.150%	1.650%
Wardley Asian Warrants & Derivatives	1.50%		0.250%	1.750%
INTERNATIONAL BOND FUND				
Barclays Int'l Bond	0.75%	0.100%		0.850%
Baring IUF Int'l Bond	0.75%	0.375%	0.100%	1.225%
Fidelity Int'l Bond	1.00%			1.000%
GT Bond "A" Share	0.75%	0.100%	0.030%	0.880%
INVESCO MIM Income Plus	0.08%		0.225%	0.305%
JF Global Bond	0.50%		0.100%	0.600%
Wardley GS Int'l Managed Bond	0.75%		0.250%	1.000%

Source: Explanatory memoranda of the above unit trusts

Notes:
* All charges are based on NAV
[1] Percentage per annum, accrue on each dealing day and payable monthly
[2] Percentage per annum, accrue on each dealing day and payable quarterly, adjusted according to fund sizes if applicable
[3] Performance fee of 10% of the excess in NAV if NAV appreciates by more than 20% in 1 FY
[4] Performance fee of 10% of the excess in NAV if NAV appreciates by more than 25% in 1 FY

The trustee fee is payable to the trustee for the safekeeping of the fund's assets. Generally, the fee is payable quarterly and is calculated as a percentage of the NAV. The percentage may vary with the NAV and sometimes the trustee fee may be subject to a minimum amount.[21]

Other miscellaneous administration costs include the cost of printing and distributing the explanatory memorandum, the annual and semi-annual reports, the fees and expenses of the auditors, and all brokerage, taxes and government duties and fees involved in trading. The initial cost of establishing the fund, such as the costs involved in the preparation of the explanatory memorandum, will be borne by the fund and amortised over the first few years. Usually the initial cost will be amortised over a period of five years.

Rounding

The bid and offer price will be rounded off after all the appropriate charges and expenses have been added or deducted from the NAV. Rounding of course will be in favour of the management company, i.e. always rounded upwards for the offer price and downwards for the bid price. The Code does not have any regulation on the rounding of the fund prices. Some fund houses will specify in the explanatory memoranda that the rounding of the fund prices will not be more than a certain percentage (say 1 percent). But again, there are many tricks to play. For instance, some fund houses will round off the figure at each stage of calculation. The following

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[21]For instance, the trustee fee for Thornton Asian Conqueror Warrant Fund is 0.15% on the first US$ 50 million of the fund's assets, 0.125% on the next US$ 50 million and 0.1% on the balance, whereas that of the JF Eastern Trust is 0.1% on the first US$ 10 million and 0.05% on the balance. Baring Emerging Markets Fund is an example of funds which set a minimum on the trustee fee (30,000 pounds p.a.)

is the most extreme rounding method which a China fund currently adopts:

Suppose: NAV = 10.123
Initial charge = 6% of adjusted NAV
Redemption charge = 0.5% of NAV

Calculation method:

Offer price

NAV	= 10.123
Round up	= 10.13
Offer price	= 10.13 / (1 - 0.06)
	= 10.77659
Round up	= 10.78

Bid price

NAV	= 10.123
Round down	= 10.12
Bid price	= 10.12 x (1 - 0.005)
	= 10.0694
Round down	= 10.06

By applying rounding at two different stages of calculation, the fund house can enlarge the actual spread to more than 7 percent. This is a grey area which the SFC currently does not have specific controls for.

The convention in Hong Kong is that unit trust prices are quoted up to two decimal spaces. But fund house such as Barclays will quote the prices of its unit trust up to three decimal spaces. This better reflects the true value of NAV and is to the advantage of the investors. In general, most fund houses only apply rounding after all the other calculations.

Exchange Rate Risk/Spread

Most of the funds in Hong Kong are denominated in foreign currencies. This means that there is also exchange rate risk involved when investing in unit trusts. For instance, a 10 percent gain in a unit trust denominated in Yen will be cancelled out if Yen depreciated by 10 percent in the same period. Fortunately, the majority of funds in Hong Kong are denominated in US dollars, which is very stable against HK dollar under the existing linked exchange rate system. This minimizes the exchange rate risk for investors. But for those who are investing in unit trusts with base currencies other than HK and US dollars, they should pay attention to the exchange rate movement as well.

A small number of funds hedge their portfolios against exchange rate fluctuations. Usually in the explanatory memoranda, the investment company will state clearly that the objective of the fund is to obtain growth and/or income in the base currency terms. So it is not the responsibility of the investment company to secure the investor's return in HK dollars. But some fund houses will still put a statement like "foreign exchange rates may fluctuate and this may affect the value of your purchase" so as to warn the investors.

Exchange rates may move in favourable or unfavourable directions. But the cost involved in the exchange rate spread is certain to the investors. Consider the case where an investor wants to invest HK$ 10,000 in a unit trust with the US dollar as the base currency. The investment monies will be first converted to the US dollar at the buying rate of the US dollar. At the time of redemption, the investment monies will be converted back to HK dollar at the selling rate of the US dollar. Though the exchange rate spread may not be too significant, investors should understand that there is such a cost involved.

Actual Spreads of Fund Prices

As mentioned above, there are many ways that a fund house can enlarge the actual spread of the fund prices. Different fund houses employ different methods to calculate the bid and offer prices. Table 6 shows the actual spread of the fund prices and compares this with what is stated in the explanatory memoranda. The following are some observations:

Fund houses like Barclays, GT Management, Jardine Fleming and Schroders usually state the initial charge as a percentage of the subscription monies and thus the actual spread will be larger than the percentage stated in the explanatory memoranda. By contrast, Baring, Fidelity, Thornton and Wardley state the initial charge as a percentage of NAV and thus the actual spread will be exactly equal to that amount.

The bid prices reflect the NAV of a fund except that of Jardine Fleming and INVESCO MIM. These two fund houses levy redemption charges on their funds and thus the bid price is calculated as NAV / (1 - redemption charge). For this reason, the actual spread of Jardine Fleming and INVESCO MIM's funds are also the largest among the nine fund houses, whereas the initial charges and actual spreads of GT Management's funds are the lowest.

A strange phenomenon is that the actual spread of INVESCO MIM Asia Tiger Growth Fund and JF Far Eastern Warrant are smaller than which is stated in their explanatory memoranda. It seems that the redemption charges of these funds have been ignored in calculating the bid prices. According to the section 6.11 of the Code on Unit Trusts and Mutual Funds, "Offer and redemption prices should be calculated on the basis of the scheme's net asset value divided by the number of units/shares outstanding. Such prices may be adjusted by fees and charges, provided the amount

TABLE 6: ACTUAL BID-OFFER SPREADS

	NAV	BID PRICE	OFFER PRICE	ACTUAL SPREAD[1]	DIFF FROM STATED IN EXP MEM
REGIONAL EQUITY FUND					
Barclays AS S.E. Asia		34.137	35.934	5.26%	**+0.26%**
Baring IUF Octopus		37.67	39.56	5.02%	
Fidelity S.E. Asia	2.212			5.25%	
GT Asia Fund "A"		24.16	25.17	4.18%	**+0.18%**
INVESCO MIM PS Asia Tiger		10.89	11.55	6.06%	**-0.44%**
JF Eastern		89.58	94.78	5.80%	**+0.30%**
Schroders Asian		22.28	23.46	5.30%	**+0.30%**
Thornton Tiger		52.23	54.84	5.00%	
Wardley GS Asian Equity		25.71	27.06	5.25%	
MEAN				**5.24%**	
WARRANT FUND					
GT Japan Warrant & Derivatives		7.70	8.02	4.16%	**+0.16%**
INVESCO MIM Asia Tiger Warrants		4.12	4.42	7.28%	**+0.28%**
JF Far Eastern Warrants		24.24	25.65	5.82%	**-0.18%**
Schroders Far Eastern Warrant		14.99	15.79	5.34%	**+0.34%**
Thornton Asian Conqueror Warrant		6.76	7.11	5.18%	**+0.18%**
Wardley Asian Warrants &		16.38	17.34	5.86%	**+0.36%**
MEAN				**5.60%**	
INTERNATIONAL BOND FUND					
Barclays Int'l Bond		93.63	97.90	4.56%	
Baring IUF Int'l Bond		18.40	19.32	5.00%	
Fidelity Int'l Bond	1.032			5.25%	
GT Bond "A" Share		19.09	19.88	4.14%	**+0.17%**
INVESCO MIM Income Plus		9.89	10.41	5.26%	
JF Global Bond		18.51	19.59	5.83%	**+0.33%**
Wardley GS Int'l Managed Bond		12.50	13.16	5.28%	
MEAN				**5.05%**	

Source: Fund prices from South China Morning Post 23 April 1994, Business 14

[1] Actual spread defined as (Offer price - Bid price) / Bid price

or method of calculating such fees and charges is clearly disclosed in the offering document". The Code does not strictly require all the charges to be reflected in bid and offer prices, but this is definitely not to the interest of the investors.

The average spreads of the selected warrant, equity and bond funds are 5.6 percent, 5.24 percent and 5.05 percent, respectively. This conforms to the conventional wisdom where funds with higher risk usually have higher initial charges.

CHAPTER VIII

RISK AND RETURN

Performance Evaluation Method

The first concern of a unit trust investor is whether the fund can provide a higher rate of return than he can earn by himself. Usually investors will look at the rate of return during different time periods, say one year, three years or year-to-date. Various newspapers such as the Asian Wall Street Journal, the Hong Kong Economic Times and South China Morning Post publish the rate of return of the authorised funds in Hong Kong weekly. On behalf of the HKIFA, Micropal Limited supplies the three months, one year and three year rates of return of the Hong Kong authorised funds to the South China Morning Post and the figures are published in the "Sunday Money" Section. The unit trusts are grouped into the categories as shown in Table 1 (on page 10 earlier).

A caveat for the investors when looking at these rates of return is that these figures are all quoted on an "offer-to-offer" basis, which compares the offer prices between the end and the start of a defined period. In other words, all these published return figures do not take the initial charges into account. But in reality the investors redeem their shares at bid price when they realize their gain. So the actual gain for the investors must be less than the stated figures by the amount of the initial charge. If the published rate of return of a fund is 10 percent, for example, and the initial charge is 5 percent, then the investor will only end up with a 5 percent gain. Actually, all the performance figures used in the advertisement of unit trusts are all quoted on a "offer-to-offer" basis, and the investors must be aware of this.

The rates of return of funds vary over time as the market alternates between bullish and bearish market period. Funds which employ a high risk-high return approach offer a good return for investors in the bull market but they also suffer from greater loss when the market situation is unfavourable. It is not surprise to find that the top Asian funds in 1993 turned out to be some of the worst performers in the first few months of 1994 when the market "adjusted".

TABLE 7: PERFORMANCE OF TOP ASIAN FUNDS IN 1993

	3 months		1 year	
Name of Fund	% chg	rank	%chg	rank
JF India	3.35	62	162.59	1
GAM Sing & Malaysia	-6.99	75	101.33	2
Indosuez Sing & Malaysia	-17.21	108	101.00	3
JF Malaysia	-32.39	202	97.69	4
JF ASEAN	-31.89	200	96.05	5
SHK Middle Kingdom	-20.01	123	94.71	6
JF Philippine	-25.04	178	94.15	7
Aetna ASEAN	-14.12	94	92.98	8
JF Thailand	-23.60	161	92.04	9
JF Eastern Smaller Companies	-24.86	174	91.51	10

Source: South China Morning Post, 10 April 1994, Sunday Money, p.7

For this reason, the rate of return alone cannot act as a satisfactory measure of fund performance. As risk and return are positively related, it is necessary that the performance measure must incorporate both elements. Three performance indices, namely Sharpe's Index, Treynor's Index and Jensen Index, which reflect both the risk and return elements had been developed in the past years. Among the three, Sharpe's Index is the most widely used approaches in evaluating the performance of funds. Sharpe's Index uses the standard deviation of portfolio returns as the measure of risk and indicates the reward per unit of variability. The formula is as follows:

$$S = \frac{R_{ave} - R_f}{STD}$$

where
- S : Sharpe's Index
- Rave : Average rate of return of the portfolio
- Rf : Risk-free rate
- STD : Standard deviation of rate of return for the portfolio

See [Sharpe, William F. Investment. 3rd ed. New Jersey: Prentice Hall, 1985, p.688]

Previous Studies

William F. Sharpe conducted a research on the performance of 34 mutual funds which primarily invested in the US for the period 1954-1963.[22] Among all the funds studied, only 11 had a Sharpe's Index which was higher than that of the Dow Jones Industrial Average (DJIA). The average Sharpe's Index of the 34 funds was 0.633, which

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[22] Sharpe, William F. "Mutual Fund Performance" Journal of Business, Suppl., January 1966, p.125

was also below 0.667 of the DJIA. This indicates that the DJIA was a more efficient portfolio than the average mutual fund in the sample. Another study by K.V. Smith and D.A. Tito shows similar results.[23] They studied a sample of 38 mutual funds during 1958-1967 and only 18 of them had a higher Sharpe's Index than that of the Standard and Poor's 500.

Previous research on the performance of funds in Hong Kong was conducted by Tse Ying-tin and Wong Chi-wai in 1986.[24] They computed the Sharpe's Index of 31 unit trusts in Honng Kong for the period 1981-1985. Their methodolgy was to use the domestic saving rate as the risk-free rate and the average returns of the funds were also recalculated in terms of HK dollar. The study shows that all the top performers were Japanese trusts if average return or aggregated return were considered. But if Sharpe's Index was used to measure performance, four bond trusts topped the rank and outperformed the Japanese trusts.[25]

Sharpe's Index of Selected Funds in Hong Kong

The Sharpe's Index of 31 selected unit trusts in Hong Kong and two market indices over the period 1989-1993 are compiled. In order to reflect the current market

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[23]Smith, K.V. and Tito, D.A. "Risk Return Measures of Ex Post Portfolio Performance" Journal of Financial and Quantitative Analysis, December 1969, pp.464-465.

[24]Tse, Ying-tin and Wong, Chi-wai, op. cit.

[25]The ranking of Schroders Currency and Bond Fund, JF Currency and Bond Fund, Wardley Bond Trust and Save and Prosper Yen Bond Trust changed from 7, 11, 13 and 9 when measured by aggregate return to 1, 2, 3 and 4 respectively when measured by Sharpe's Index.

situation, the funds selected vary greatly with that of Tse and Wong's study in 1986.[26] By incorporating the risk component into consideraation, this empirical research compares the performance of three kinds of fund which have very different risk exposure, namely income trust, growth trust and specialized trust. Funds from nine major fund houses in Hong Kong are selected. The criteria is that international bond funds are selected to represent income trusts whereas Asian warrant funds are selected for specialized trusts. Concerning growth trusts, a single country fund (Hong Kong) and two regional equity funds (Southeast Asia and North America) are selected so as to reflect the risk and return attached to developing and mature economies.

In computing Sharpe's Index, the average of the twelve month fixed deposit rate at the beginning of 1989, 1990, 1991, 1992 and 1993 is used as the risk-free rate of return. The twelve month deposit rate is used since this can reflect the interest of retail investors and offers a fair comparison with the average annual return of the funds. In Tse and Wong's 1986 study, average returns were expressed in terms of HK dollars. But the effect of the exchange rate is ignored in this study as all of the selected funds are denominated in US dollars, which is linked to the HK dollars.

Tables 8 and 9 illustrate the research results. Concerning the absolute rate of return, income trusts in general underperformed the rest except for 1990, where the equity markets were very soft because of the Gulf crisis.

When the aggregate return is compared with Sharpe's Index, the ranking of some

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[26]JF Hong Kong Trust and Eastern Trust, Wardley GS International Managed Bond Fund and Schroders Asian Fund are the four funds which covered in both studies.

TABLE 8: ANNUAL RETURN OF SELECTED FUNDS (1989-1993)

	Rate of Return				
	1989	1990	1991	1992	1993
INCOME FUNDS					
Barclays (Lux) Intl Bond	7.86	15.83	16.35	3.06	13.57
Baring IUF Intl Bond	7.39	16.62	19.32	2.73	18.59
Fidelity Fds Intl Bond	---	---	14.86	3.21	15.75
GT Bond A Share	10.42	8.08	17.61	3.33	29.61
INVESCO Income Plus	---	---	16.84	3.51	14.75
Wardley GSF Intl Managed Bond	---	8.90	16.62	2.41	13.46
GROWTH FUNDS					
Hong Kong Equity					
Barclays ASF Hong Kong	---	---	40.54	63.08	136.12
Baring IUF Hong Kong	21.10	11.84	45.46	23.23	122.33
Fidelity Fds Hong Kong & China	---	---	44.88	44.49	126.68
GT Hong Kong A Share	13.31	9.74	39.67	28.54	105.16
JF Hong Kong	9.64	14.54	39.48	26.58	138.14
Schroders Asia Hong Kong	11.49	13.22	51.53	35.38	125.98
Thornton New Tiger Hong Kong	4.79	16.68	45.12	43.36	179.62
Wardley GSF Hong Kong Equity	6.77	11.60	30.25	30.23	131.07
North America Equity					
Baring IUF North America	26.42	-12.39	38.90	7.57	8.92
Fidelity American	30.80	-3.28	40.71	0.14	11.27
JF American Growth	23.32	-18.51	22.49	34.41	21.20
Schroder American	25.84	1.20	30.83	6.92	7.65
Wardley GSF Nth America Eqty	23.75	-5.52	30.84	5.71	10.83
Southeast Asia Equity					
Barclays ASF S E Asia	---	---	18.12	72.05	137.03
Baring IUF Octopus	68.71	-13.33	26.12	9.19	100.85
Fidelity Fds South East Asia	---	---	21.37	23.12	91.25
GT Asia A Share	42.30	3.14	18.17	-16.08	54.03
INVESCO PS Asia Tiger Gth	---	---	11.90	12.15	107.19
JF Eastern	63.20	-12.57	16.75	24.50	168.77
Schroders Asian	46.11	-7.76	32.83	26.22	86.99
Thornton Tiger	52.69	-12.75	15.52	11.97	91.76
Wardley GSF Asian Equity	67.86	-10.76	22.86	19.61	104.33
SPECIALISED FUNDS					
HSBC Asian Warrants	---	---	54.98	-16.80	107.50
INVESCO Asia Tiger Warrant	---	---	51.85	-10.46	329.42
JF Far Eastern Warrants	---	-38.20	37.39	-4.62	339.75
MARKET INDICES					
Hong Kong Hang Seng Index	5.55	6.63	42.08	28.27	115.66
Dow Jones Industrial Average	33.36	-0.63	23.92	6.92	16.77

Source: Fund data supplied by Micropal Limited

TABLE 9: SHARPE'S INDEX OF SELECTED FUNDS (1989-1993)

	Agg. Return	Rank	Ave. Return	STD	Sharpe's Index	Rank
INCOME FUNDS						
Barclays (Lux) Intl Bond	170.14	30	11.33	5.72	0.8712	4
Baring IUF Intl Bond	182.05	27	12.93	7.44	0.8848	2
Fidelity Fds Intl Bond	137.22	33	6.76	8.67	0.0478	33
GT Bond A Share	187.98	26	13.81	10.23	0.7296	11
INVESCO Income Plus	138.78	32	7.02	8.95	0.0749	32
Wardley GSF Intl Managed Bond	147.57	31	8.28	7.30	0.2641	31
GROWTH FUNDS						
Hong Kong Equity						
Barclays ASF Hong Kong	541.17	5	47.95	61.62	0.6751	15
Baring IUF Hong Kong	539.76	6	44.79	45.07	0.8530	5
Fidelity Fds Hong Kong & China	474.53	9	43.21	56.67	0.6504	16
GT Hong Kong A Share	458.00	11	39.28	38.74	0.8502	6
JF Hong Kong	528.00	7	45.68	52.96	0.7425	8
Schroders Asia Hong Kong	585.17	2	47.52	46.89	0.8780	3
Thornton New Tiger Hong Kong	711.28	1	57.91	70.20	0.7346	10
Wardley GSF Hong Kong Equity	467.03	10	41.98	50.93	0.6997	13
North America Equity						
Baring IUF North America	180.25	28	13.88	19.61	0.3842	29
Fidelity American	198.35	24	15.93	19.20	0.4987	23
JF American Growth	200.53	23	16.58	20.32	0.5036	22
Schroder American	191.77	25	14.49	13.01	0.6258	18
Wardley GSF Nth America Eqty	179.23	29	13.12	14.44	0.4688	25
Southeast Asia Equity						
Barclays ASF S E Asia	481.71	8	45.44	64.74	0.6038	20
Baring IUF Octopus	404.43	15	38.31	46.09	0.6933	14
Fidelity Fds South East Asia	285.79	18	27.15	41.11	0.5059	21
GT Asia A Share	224.19	21	20.31	28.48	0.4903	24
INVESCO PS Asia Tiger Gth	260.01	20	26.25	50.00	0.3979	28
JF Eastern	557.43	4	52.13	70.58	0.6486	17
Schroders Asian	422.51	14	36.88	34.35	0.8888	1
Thornton Tiger	330.44	17	31.84	40.85	0.6240	19
Wardley GSF Asian Equity	449.80	12	40.78	45.27	0.7605	7
SPECIALISED FUNDS						
HSBC Asian Warrants	267.56	19	29.14	56.44	0.4037	27
INVESCO Asia Tiger Warrant	583.87	3	74.16	158.57	0.4276	26
JF Far Eastern Warrants	356.13	16	66.86	159.96	0.3783	30
MARKET INDICE						
Hong Kong Hang Seng Index	442.35	13	39.64	45.18	0.7367	9
Dow Jones Industrial Average	205.03	22	16.07	13.45	0.7225	12

Source: Fund data supplied by Micropal Limited funds altered significantly. The ranking of the three warrant funds changed from 19, 3, and 16 to 27, 26, 30, respectively. In contrast, the ranking of two bond funds, the Barclays International Bond Fund and the Baring International Bond Fund, improved greatly from 30 and 27 to 4 and 2 respectively. This indicates that the rate of return sometimes fails to provide a fair evaluation of the funds that have very extreme risk exposure, such as income trusts and specialized trusts. Tse and Wong's research in 1986 shows similar results in which the ranking of four income funds significantly improved when Sharpe's Index was being used to measure performance.

In general, the ranking of growth trusts altered less drastically than those of the income and specialized trusts. Some funds maintained similar rankings irrespective of ranking by aggregate return or Sharpe's Index. For example, the Schroder Hong Kong Fund ranked second by aggregate return and ranked third by the Sharpe's Index. The fund offered a high absolute return to the investors during 1989-1993 which justified the level of risk attached to it.

Comparing with the market index, half of the eight selected Hong Kong funds outperformed the Hong Kong Hang Seng Index. The average Sharpe's Index of the eight funds, 0.7604, is also sightly higher than 0.7367 of the Hang Seng Index. But among the five US equity funds, all of them underperformed the DJIA. The average Sharpe's Index is only 0.4962, which is much lower than 0.7225 of the DJIA. The observations on US funds conforms to Sharpe's findings in the 1950s. It seems that the thirty blue chip stocks of the DJIA consistently outperform the portfolio stocks of the US funds. The poor performance of the US equity funds may due to superfluous diversification of stocks[27], or the return in mature markets like the US is not enough to justify the management expenses.[28]

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[27]See Francis, Jack F. Investment: Analysis and Management. 2nd ed. USA: McGraw-Hill, 1976, pp.528-529

[28]As indicated in Table 9, the average annual return for the five US funds is only 14.8 percent, but the initial charge and management expenses can be up to the range of 5 to 10 percent of the NAV.

CHAPTER IX

CONCLUSION

The unit trust industry in Hong Kong has experienced strong growth in 1993 and practitioners believe that there is still a lot of room for the industry to expand. Especially when an increasing number of fund houses have redirected their marketing effort to the local Chinese community and the horizon of the investors have become more international, the unit trust industry will still enjoy a high growth in the coming years.

A unit trust is a convenient vehicle for investors, but its structure and operation are also difficult for ordinary retail investors to understand. Despite this, the number of unit-holders has increased significantly and the HKIFA have put a lot of effort in educating the public on the basics of unit trusts. However, many investors are still not fully aware of their rights and the problem trisks of investing in unit trusts. Most of the investors just care about the ups and downs of the fund prices. It is very rare that an investor can tell what kind of fees and charges he is paying for. Further education to the public is necessary in order to establish a healthy investment environment.

Many aspects of the exisitng regulations on unit trusts are quite ambigious. For instance, the Code on Unit Trusts and Mutual Funds only states that the payment of redemption money "may" not exceed one month and the fund prices "may" be adjusted by fees and charges. The Code also does not have any restriction on applying rounding at different stages of calculating the fund prices. These issues will directly affect the interest of the investors and the regulator must take a firm stand. Otherwise, the interest of the investors cannot be fully protected. There have been very few (if any) formal complaints on the operation of unit trusts but dissatisfaction is often heard. The SFC should pay attention to these issues when reviewing the Code in the future.

Concerning performance evaluation, the research on 31 selected funds in Hong Kong over the period 1989-1993 shows that the ranking of growth trusts in general does not alter significantly no matter how the aggregate return or Sharpe's Index is being used for evaluation purposes. But the ranking of some specialized and income trusts changed significantly and investors must not ignore the risk factor when they invest in these kinds of funds.

Findings on selected US funds conform to the results of past studies that the market index outperformed the average investment fund. Investors should pay attention to whether the markets and/or type of securities they intend to invest are worth to be managed by professionals.

Many unit trusts in Hong Kong have been launched for less than ten years. In order to enable a wider scope of study, the research on Sharpe's Index in this project only uses a time horizon of five years. Comprehensive databases of fund prices have been developed in Hong Kong. Future research should use a longer time horizon, for example ten years, whenever possible so as to obtain more reliable results.

APPENDIX I

HONG KONG INVESTMENT FUNDS ASSOCIATION'S FULL MEMBERS

Aetna Investment Management (Far East) Ltd
Barclays de Zoete Wedd Investment Management (HK) Ltd
Barclays International Fund Managers Ltd
BT Fund Managers Ltd
Capital House Investment Management (Asia) Ltd
CEF Investment Management Ltd
Citibank Global Asset Management (Asia) Ltd
Citibank N.A.
Connaught Investment Ltd
Clerical Medical International
Credit Lyonnais International Asset Management (HK) Ltd
Daiwa International Capital Management (HK) Ltd
Dao Heng Fund Management Ltd
Fidelity Investments Management (HK) Ltd
Global Asset Management (HK) Ltd
GT Management (Asia) Ltd
Hambro Pacific Fund Management Ltd
HSBC Investment Funds Hong Kong Ltd
Income Partners (Asia) Ltd
Indosuez Asia Investment Services Ltd
Invesco Asia Ltd
Jardine Fleming Unit Trusts Ltd
Kleinwort Benson (HK) Ltd
Lippo Asia Investment Management (HK) Ltd
Lloyd George Investment Management (Bermuda) Ltd
Mansion House Investment Management Services Ltd
Matheson PFC Ltd
National Mutual Fund Management Co Ltd
Nomura Trust (Cayman) Ltd
Panurgy Ltd
Peregrine Asset Management (HK) Ltd
Prudential Assurance Co Ltd
Regent Fund Management Ltd
Rothschild Asset Management (HK) Ltd
Royal Bank of Canada Trust Co (Asia) Ltd
Schroders Asia Ltd
SHK Unit Trust Managers Ltd
Sun Sun Chan Financial Management Ltd
Thornton Management (Asia) Ltd
Warburg Asset Management Hong Kong Ltd
Worldsec Asset Management Ltd

Source: Hong Kong Investment Funds Association, Hong Kong Investment Funds Association Membership List

APPENDIX 2

MEMBERS OF THE COMMITTEE ON UNIT TRUSTS

Chairman
Executive Director (Intermediaries & Investment Products), SFC

Members (10)
Non-executive Director of SFC
Assistant Director (Investment Products), SFC
Representatives of the Secretary for Monetary Affairs
Chairman of the Hong Kong Investment Funds Association
Two persons from fund management companies
Two persons for trustee companies
Person nominated by SFC
Actuary member

Source: Hong Kong Securities and Futures Commission, Code on Unit Trusts and Mutual Funds, p.1-2

APPENDIX 3

RECOGNIZED JURISDICTION SCHEME

Jurisdiction/ Applicable Law	Scheme Type	Exemption
Luxembourg law of 30 March 1988 on collective investment undertakings	Part I schemes	Chapter 4 Chapter 5[1] Chapter 6 Chapter 7[2]
United Kingdom Financial Services Act 1986	Section 78 schemes	Chapter 4 Chapter 5[1] Chapter 6 Chapter 7
Collective Investment Funds (Recognized Funds) (General Provisions) (Jersey) Order, 1988	Article 5, Recognized schemes	Chapter 4 Chapter 5[1] Chapter 6 Chapter 7
Proctection of Investors (Bailiwick of Guernsey) Law, 1987	Class A1, Section 8 schemes	Chapter 4 Chapter 5[1] Chapter 6 Chapter 7
European Communities (UCITUS) Regulations 1989 of the Republic of Ireland	Unit trust & Investment Companies	Chapter 4 Chapter 5[1] Chapter 6[3] Chapter 7[2]
Financial Supervision Act 1988, Isle of Man	Section 3, authorized collective investment schemes	Chapter 4 Chapter 5[1] Chapter 6 Chapter 7
The Companies (United Kingdom Scheme Bye–Laws) Regulations 1988 of Bermuda	Approved schemes	Chapter 4[4] Chapter 5[1,5] Chapter 6[6] Chapter 7

Source: Securities and Futures Commission, The Code on Unit Trusts and Mutual Funds, Appendix A

[1] Subject to approval by the Commission of management companies that are not members of management groups previously approved in Hong Kong.
[2] Subject to an undertaking to comply with 7.6 of the Code on Unit Trusts and Mutual Funds.
[3] Subject to an undertaking to comply with 6.14 of the Code on Unit Trusts and Mutual Funds.
[4] Subject to compliance with 4.3 of the Code on Unit Trusts and Mutual Funds.
[5] Subject to compliance with 5.2 of the Code on Unit Trusts and Mutual Funds.
[6] Subject to an undertaking to comply with 6.25(h) of the Code on Unit Trusts and Mutual Funds.

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